

Message Text

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ACTION EUR-25

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NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-15

MBFR-04 OMB-01 ACDA-19 IO-13 EB-11 TRSE-00 SAJ-01

DRC-01 /144 W

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R 051219Z SEP 73

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7239

INFO AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY MOSCOW

USMISSION NATO BRUSSELS

S E C R E T SECTION 01 OF 02 BONN 12688

DEPT PLEASE PASS TREASURY

E.O. 11652: GDS

TAGS: PFOR

SUBJECT: SCHMIDT ON TROOPS OFFSET AND TRADE

1. FINANCE MINISTER SCHMIDT BEGAN AN HOUR AND A HALF CONVERSATION WITH SENATOR MONDALE ON SEPTEMBER 3 BY DESCRIBING THE THREE ELEMENTS THAT HAD DETERMINED THE MILITARY BALANCE OF POWER IN EUROPE SINCE WORLD WAR II. HE SAID THE STRATEGIC/NUCLEAR AND MARITIME SUPERIORITY OF THE WESTERN ALLIANCE HAD OVERBALANCED RUSSIAN GROUND SUPERIORITY IN EUROPE. NOW, HOWEVER, HE WENT ON, THE WESTERN ALLIANCE IS LOSING BOTH ITS MARITIME AND ITS STRATEGIC/NUCLEAR SUPERIORITY WHILE THE PREPONDERANCE OF SOVIET STRENGTH ON THE GROUND IN EUROPE REMAINS. GIVEN THIS CHANGE IN THE OVERALL STRATEGIC PICTURE, ANY UNILATERAL TROOP REDUCTION BY THE U.S. IN EUROPE WOULD SO UNDERMINE EUROPEAN POLITICAL STABILITY THAT A PROCESS OF RETHINKING

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EUROPEAN SECURITY WOULD BEGIN AND WOULD INCORPORATE,

HOWEVER INACCURATELY OR PREMATURELY, THE PROBABILITY THAT IN THE FUTURE THE U.S. MIGHT NOT BE A MAJOR FACTOR IN EUROPEAN SECURITY. THE OUTCOME OF SUCH A PROCESS WOULD BE VERY DIFFICULT TO PREDICT BUT IT MOST CERTAINLY, AT THE VERY LEAST, WOULD INVOLVE AN INCREASE IN THE INFLUENCE OF THE SOVIET UNION IN WESTERN EUROPE.

2. SCHMIDT ADDED THAT IF THE U.S. DID NOT NOW VIEW ITS OWN SECURITY AND ITS INTERESTS IN WESTERN EUROPE AS IT HAD IN THE PAST AND IS SERIOUSLY CONSIDERING REDUCING ITS PRESENCE AND ITS INFLUENCE, THEN NO POSSIBLE INCREASE IN BURDEN SHARING WOULD BE OF ANY CONSEQUENCE. SCHMIDT POINTED OUT THAT THE AMERICAN DEFENSE BUDGET IS SO FAR GREATER THAN THE COMBINED DEFENSE BUDGETS OF EUROPEAN NATO MEMBERS THAT A 10 PERCENT INCREASE IN EUROPEAN DEFENSE BUDGETS EARMARKED FOR BURDEN SHARING WOULD BE OF LITTLE CONSEQUENCE IN TERMS OF AMERICAN DEFENSE OUTLAYS. SCHMIDT ALSO SAID THAT HE CONSIDERED MUCH OF THE ARGUMENT OVER BUDGETS AND BUDGET SHARING, ETC. TO BE PERIPHERAL AND PETTY. FOR INSTANCE, IF GERMAN TROOPS WERE AS WELL PAID AS AMERICAN TROOPS, THE INCREASE IN THE GERMAN DEFENSE BUDGET WOULD BE CONSIDERABLE WHILE AT THE SAME TIME THERE WOULD BE NO STRENGTHENING OF THE WESTERN MILITARY POSTURE. SCHMIDT ADDED THAT HIS VIEW OF THE INADVISABILITY OF AMERICAN TROOP WITHDRAWALS HAD BEEN CONSISTENT OVER THE YEARS AND WAS EVEN STRONGER AT THIS TIME BECAUSE AMERICAN PRESTIGE HAS NEVER BEEN LOWER NOR ITS FUTURE POLICIES VIS-A-VIS EUROPE MORE DIFFICULT TO PREDICT.

3. RETURNING TO BURDEN SHARING, SCHMIDT SAID THAT AS THE U.S. WAS RICHER THAN ITS EUROPEAN ALLIES, CERTAINLY RICHER THAN MOST OF THEM, IT COULD BE EXPECTED TO SPEND A HIGHER PERCENTAGE OF ITS GNP ON

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DEFENSE, ANALOGOUS TO THE PROGRESSIVE INCOME TAX LONG CONSIDERED TO BE EQUITABLE. SCHMIDT SAID THAT, FURTHERMORE, IN THE PRESENT OFFSET PERIOD JUST BEGINNING, THAT IS JULY 1973-JULY 1975, THERE WOULD BE, IN TOTAL, A GERMAN DEFICIT IN ITS BALANCE OF PAYMENTS AND AN AMERICAN SURPLUS. HE DID NOT SEE, THEREFORE, HOW ANY CONSIDERABLE INCREASE IN BURDEN SHARING COULD BE EXPECTED. ON THE CONTRARY, HE THOUGHT THE FIGURES OF THE PAST PERIOD, I.E., 2 BILLION DM IN MILITARY PROCUREMENT AND 600 MILLION DM FOR BARRACKS RENEWAL WOULD BE APPROXIMATELY THE SIZE OF THE OFFSET PACKAGE NOW TO BE NEGOTIATED.

4. TURNING BRIEFLY TO INTERNATIONAL TRADE MATTERS, SCHMIDT SAID HE CONSIDERED THAT THE SINS OF THE EUROPEANS WERE NOT SIGNIFICANTLY MORE GRIEVOUS THAN THE SINS OF THE U.S. AND THAT IN ANY CASE FAR TOO MUCH FUSS WAS BEING MADE OVER TARIFFS AND
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NON-TARIFF BARRIERS TO TRADE. HE POINTED OUT THAT IN THE LAST FOUR YEARS THE VALUE OF THE DM MEASURED AGAINST THE DOLLAR HAS RISEN 45 PERCENT. IT SEEMS SILLY TO CONCENTRATE SO INTENTLY ON A 1, OR 2, OR EVEN 3 PERCENTAGE POINT DECREASE IN A GIVEN TARIFF. SCHMIDT ALSO SAID THAT HE DID NOT THINK THE U.S., PARTICULARLY THE U.S. CONGRESS, FULLY APPRECIATES THE ROLE GERMANY HAS PLAYED OR THE POLITICAL RISK SCHMIDT QUITE PERSONALLY HAD UNDERTAKEN IN SUPPORT OF THE DOLLAR. HE NOTED THAT AT ONE POINT THE BUNDESBANK HAD PURCHASED 6 BILLION DOLLARS IN ONE DAY WITH THE

CERTAIN KNOWLEDGE THAT THOSE DOLLARS WOULD BE
DEVALUED. SCHMIDT SAID HE WAS PREPARING A PAPER ON
THIS SUBJECT WHICH HE WOULD ASK THE GERMAN AMBASSADOR
IN WASHINGTON TO DELIVER TO EACH MEMBER OF CONGRESS
SO THAT THESE FACTS WOULD PLAY A ROLE TOO WHEN THE
TROOP ISSUE AGAIN COMES UP.
HILLENBRAND

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